TORONTO

REPORT FOR ACTION WITH CONFIDENTIAL ATTACHMENT

Environmental, Social, and Governance Reporting Update

Date: September 11, 2023
To: Toronto Investment Board
From: Director, Capital Markets
Wards: All

REASON FOR CONFIDENTIAL INFORMATION

The attachments to this report involves the security of property belonging to the City of Toronto or one of its agencies or corporations.

SUMMARY

The Toronto Investment Board (Board) has engaged MSCI Inc. (MSCI) and its subsidiary MSCI ESG Research LLC as the ESG Ratings Service provider in April 2023. The agreement was in response to City Council's request to the Toronto Investment Board and the Chief Financial Officer and Treasurer to monitor and report on the performance of the external investment firms as hired by the Board with respect to ESG factors as per the terms of the Investment Policy.

In addition, the agreement also includes the MSCI Carbon Portfolio Analytics reporting package that is part of MSCI's Climate Lab Enterprise. Carbon Portfolio Analytics reporting from MSCI ESG Research helps investors understand, measure and manage carbon risk at the portfolio, sector, and company level.

Both of these MSCI products are provided on a managed service basis. This requires City staff to upload the portfolio information to MSCI via a secured portal and then MSCI will generate reports on each portfolio as well as on a consolidated basis for both the Long-Term Fund (LTF) and the Sinking Fund (SF). Comparison information against a benchmark index is also provided.

The information from MSCI is proprietary and confidential. There are a number of identifiable individual companies and governments in their detailed reports. The agreement with MSCI allows for the viewing and use of the information on a confidential

basis by a limited number of City staff, the Board, and City Council. The contract does allow for the public use of general consolidated information on a limited basis.

Portfolio holdings were submitted to MSCI in August with preliminary results received in early September. Staff are still reviewing the materials however some preliminary consolidated data is provided in this report as well as in Confidential Attachments 1, 2, 3, and 4.

RECOMMENDATIONS

The Director, Capital Markets recommends that:

1. The Toronto Investment Board direct that the confidential information contained in Confidential Attachment 1, Confidential Attachment 2, Confidential Attachment 3, and Confidential Attachment 4 remain confidential in its entirety, as it contains information that involves the security of property belonging to the City or one of its agencies or corporations.

FINANCIAL IMPACT

There is no financial impact to the City's operating or capital budgets as a result of this report.

DECISION HISTORY

At its meeting on June 19, 2023, the Toronto Investment Board received an informational report with two confidential attachments that provided a scoring of the Long-Term Fund and the Sinking Fund on ESG metrics.
https://secure.toronto.ca/council/agenda-item.do?item=2023.IB3.5

At its meetings on September 9, 2021, the Toronto Investment Board authorized the Director, Capital Markets to initiate a non-competitive procurement to retain a recommended third-party information provider identified in a confidential attachment and in the alternative, to retain the second recommended third-party information provider identified in the same attachment. The Board also authorized the Chair or Vice-Chair to execute the agreement with the recommended provider once negotiations were completed.
https://secure.toronto.ca/council/agenda-item.do?item=2021.IB13.5

At its meetings on October 7, 2020,The Toronto Investment Board authorized the Director, Capital Markets to initiate a Request for Proposal (RFP) for a third-party information provider that could provide metrics in the area of assessing Environmental, Social, and Governance (ESG) performance which would facilitate a response to the City Council request to the Toronto Investment Board and the Chief Financial Officer and Treasurer to develop a process to monitor and report on whether or not external

investment firms hired by the City are compliant with the terms of the Investment Policy with respect to ESG factors.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.IB9.5

At its meetings on June 29 and June 30, 2020, City Council approved the amendments to the City Council-approved Investment Policy related to ESG. City Council also requested the Toronto Investment Board and the Chief Financial Officer and Treasurer to develop an ESG process, to incorporate ESG factors into its investment decision making, and to consider and incorporate internationally-recognized best practices for ESG when considering any changes to the Investment Policy.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.EX14.2

At its meeting on January 29, 2020, City Council referred Item CC14.4 to the Executive Committee for further consideration.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.CC14.4

At its meeting on December 4, 2019, the Toronto Investment Board received a report which provided a brief update on the changes to the Investment Policy regarding ESG. The board requested the Director, Capital Markets to report on the governance options as it pertains to the ESG factors and to review the various service providers of this data.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.IB5.3

At its meetings on October 2 and 3, 2019, City Council referred item EX8.3 to the Chief Financial Officer and Treasurer, and requested the Chief Financial Officer and Treasurer, in consultation with the Investment Board and the Toronto Atmospheric Fund, to report to the January 29 and 30, 2020 meeting of City Council on additional improvements to the investment policy regarding ESG.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.EX8.3

At its special meeting on May 10, 2019, the Toronto Investment Board received a report which requested changes to the Investment Policy regarding ESG. The board requested the Executive Director, Corporate Finance to include recommendations to enhance and update the Investment Policy with regard to ESG factors.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.IB2.1

COMMENTS

MSCI ESG Ratings - Results

Confidential Attachment 1 provides a summary of the MSCI ESG Rating on the Long-Term Fund (LTF) while Confidential Attachment 2 provides the ESG Rating on the Sinking Fund (SF). Staff are still working with MSCI to understand and interpret the data and the reporting. MSCI also provides individual reports on each externally managed portfolio mandate although they are not attached to this report however can be provided as necessary.

The MSCI ESG Ratings provide metrics in several areas which are combined for the ESG Rating number which then convert to an Overall Score. The Overall Score scale is presented in Table 1 below:

Table 1 - MSCI Overall Score Scale

LEADER	AAA
	AA
AVERAGE	A
	BBB
	BB
LAGGARD	B
	CCC

Table 2 and Table 3 below provides some highlights of the consolidated information for the LTF and the SF respectively.

Table 2 - Summary of the MSCI ESG Rating on the Long-Term Fund (LTF)

Scoring Metric	Portfolio (LTF)	Benchmark (Blended)	Comments
Overall Score	AA	AA	N/A
ESG Rating	7.20	7.20	N/A
Carbon Risk Score (T CO2E/$M Sales)	178.6	170.6	4.7% greater than benchmark
Reputational Risk (Very Severe Controversy Exposure)	0.1%	0.2%	Low Reputational Risk
Governance Risk	Leaders - 28.5% Laggards - 3.1%	Leaders - 18.0% Laggards - 3.7%	Leaders are 10.5% greater than benchmark

Table 3 - Summary of the MSCI ESG Rating on the Sinking Fund (SF)

Scoring Metric	Portfolio (SF)	Benchmark (Blended)	Comments
Overall Score	AA	AA	N/A
ESG Rating	7.29	7.20	N/A
Carbon Risk Score (T CO2E/$M Sales)	88.9	170.6	47.9% less than benchmark
Reputational Risk (Very Severe Controversy Exposure)	0.1%	0.2%	Low Reputational Risk
Governance Risk	Leaders - 14.7% Laggards - 3.0%	Leaders - 18.0% Laggards - 3.7%	N/A

These results were based on the LTF and SF portfolios as at June 30, 2023. While the MSCI information database is quite large, it does not cover all of the securities in the portfolios and the Market Value Coverage information on each metric is provided in the confidential attachments.

MSCI Carbon Portfolio Analytics Report - Results

The Carbon Portfolio Analytics Report provides a detailed analysis focused on environmental issues and more specifically measures the average weighted carbon intensity within each externally managed portfolio mandate. Although each individual report are not attached to this report, they are consolidated into two summary reports for both the LTF and the SF.

MSCI ESG Research defines portfolio weighted average carbon intensity as a measure of a portfolio's exposure to carbon related potential market and regulatory risks and is computed as the sum product of the portfolio companies' carbon intensities and weights. More information on the metrics is included in the appendix of each confidential attachment.

Confidential Attachment 3 provides a summary of the MSCI Carbon Portfolio Analytics Report on the LTF while Confidential Attachment 4 provides the Carbon Portfolio Analytics Report on the SF. Staff are still working with MSCI to understand and interpret the data and the reporting.

Table 4 and Table 5 below provides some highlights of the consolidated information for the LTF and the SF respectively.

Table 4 - Summary of the MSCI Carbon Portfolio Analytics on the Long-Term Fund (LTF)

Scoring Metric	Portfolio (LTF)	Benchmark (Blended)	Comments
Carbon Risk Score (T CO2E/$M Sales)	178.6	170.9	4.7% greater than benchmark
Weight of Companies Owning Fossil Fuel Reserves	1.8%	2.6%	Underweight by 0.4%
Weight of Companies Offering Clean Technology Solutions	18.9%	14.1%	Overweight by 4.8%
Weighted Average Carbon Intensity Trend of Current Holdings (trend since 2014)	2014 - 261.3 Current - 178.6 (Lower)	2014 - 237.8 Current - 170.9 (Lower)	N/A

Table 4 - Summary of the MSCI Carbon Portfolio Analytics on the Sinking Fund (SF)

Scoring Metric	Portfolio (SF)	Benchmark (Blended)	Comments
Carbon Risk Score (T CO2E/$M Sales)	88.9	170.9	47.9% less than benchmark
Weight of Companies Owning Fossil Fuel Reserves	1.5%	2.6%	Underweight by 1.1%
Weight of Companies Offering Clean Technology Solutions	23.1%	14.1%	Overweight by 9%
Weighted Average Carbon Intensity Trend of Current Holdings (trend since 2014)	2014 - 160.0 Current - 88.9 (Lower)	2014 - 237.8 Current - 170.9 (Lower)	N/A

This second set of summary reports are prepared similarly to the MSCI ESG Ratings Report. As such, these results were based on the LTF and SF portfolios as at June 30, 2023. While the MSCI information database is quite large, it does not cover all of the securities in the portfolios and the coverage information on each metric is provided in the confidential attachments.

CONTACT

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SIGNATURE

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ATTACHMENTS

Confidential Attachment 1 - MSCI ESG Portfolio Summary Report - LTF
Confidential Attachment 2 - MSCI ESG Portfolio Summary Report - SF
Confidential Attachment 3 - MSCI Carbon Portfolio Analytics Report - LTF
Confidential Attachment 4 - MSCI Carbon Portfolio Analytics Report - SF